This record is a partial extract of the original cable. The full text of the original cable is not available.

271108Z Apr 01

2001HANOI01017 - UNCLASSIFIED

UNCLASSIFIED PTO2007

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ACTION SSO-00

INFO LOG-00 NP-00 AGRE-00 AID-00 ANHR-00 EAP-00 EB-00 TEDE-00 SS-00 STR-00 TEST-00 TRSE-00 SAS-00 /000W

FM AMEMBASSY HANOI
TO SECSTATE WASHDC PRIORITY 2708
DEPT OF TREASURY WASH DC PRIORITY
NSC WASHDC
USDOC WASHDC
USDA WASHDC
ASEAN COLLECTIVE
AMCONSUL HO CHI MINH CITY

UNCLAS SECTION 01 OF 04 HANOI 001017

SIPDIS

SENSITIVE

STATE FOR E, EB, EB/IFD/ODF, EB/IFD/OMA, EB/TPP, EAP/BCLTV
STATE PASS USAID/ANE AFERRERA AND DMCCLUSKEY
STATE PASS USTR
TREASURY FOR OASIA
TREASURY PASS USED WORLD BANK AND USED IMF
USDOC FOR 4431/MAC/IEP/OKSA/HPPHO
USDA FOR FAS/ITP/SCHIKH/HUYNH
PHNOM PENH FOR USAID LCHILES
MANILA PASS USADB

E.O. 12958: N/A

UNCLASSIFIED

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TAGS: EAID EFIN ECON ETRD PREL VM FINREF SOE
SUBJECT: VIETNAM - U.S. VOTE ON WORLD BANK'S PRSC PROGRAM

REF: HANOI 686 AND PREVIOUS

- 11. (SBU) SUMMARY: EMBASSY URGES WASHINGTON AGENCIES TO SUPPORT THE WORLD BANK'S POVERTY REDUCTION SUPPORT CREDIT (PRSC) PROPOSAL TO BE PRESENTED TO THE BANK'S BOARD IN EARLY MAY. WE RECOGNIZE THAT THE PRSC, LIKE THE IMF'S POVERTY REDUCTION AND GROWTH FACILITY (PRGF) CONSIDERED BY THE IMF BOARD ON APRIL 6, IS NOT PERFECT. IN FACT, WE AGREE WITH A NUMBER OF THE OBSERVATIONS MADE BY THE U.S. EXECUTIVE DIRECTOR'S OFFICE WHEN IT ABSTAINED ON THE PRGF. (WE COMMENT ON SOME OF THESE OBSERVATIONS BELOW.) BUT WE THINK THE IMF/WB STRUCTURAL PROGRAM OPERATING IN TANDEM WITH THE TRADE OBLIGATIONS THE VIETNAMESE GOVERNMENT HAS ASSUMED UNDER THE ASEAN FREE TRADE AREA AGREEMENT AND WILL ASSUME WHEN THE U.S.-VIETNAM BILATERAL TRADE AGREEMENT ENTERS INTO FORCE PROVIDE THE BEST PROSPECT FOR PROMOTING MARKET-ORIENTATION AND INTERNATIONAL COMPETITIVENESS THAT THE VIETNAMESE ECONOMY HAS SEEN IN DECADES, IF EVER. WHILE UNTESTED, WE ARE ALSO HOPEFUL RECENT LEADERSHIP AND STRUCTURAL CHANGES IN VIETNAM'S POLITBURO WILL REINVIGORATE ECONOMIC REFORM MOMENTUM. END SUMMARY.
- 12. (SBU) WHILE ABSTAINING ON THE PRGF DUE TO GRAMM AMENDMENT CONSIDERATIONS (APPLICABLE ONLY TO IMF LENDING), THE U.S. EXECUTIVE DIRECTOR TO THE IMF RAISED A NUMBER OF VALID CONCERNS ABOUT THE PROPOSED FACILITY. SINCE BOTH STRUCTURAL PROGRAMS (PRGF AND PRSC) WERE DESIGNED TO WORK TOGETHER, WE ANTICIPATE WASHINGTON AGENCIES MAY RAISE UNCLASSIFIED
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 SIMILAR ISSUES WHEN TAKING UP THE WORLD BANK'S CREDIT
 PROGRAM. WHEN THE IMF'S BOARD TOOK UP THE IMF'S FACILITY,
 THE U.S. EXECUTIVE DIRECTOR QUESTIONED THE VIETNAMESE
 GOVERNMENT'S ABILITY TO KEEP PUBLIC SECTOR DEBT UNDER
 CONTROL AND WHETHER FISCAL SUSTAINABILITY WOULD BE
 ADEQUATELY SAFEGUARDED THROUGH THE LIFE OF THE PROGRAM. THE
 U.S. EXECUTIVE DIRECTOR ALSO QUESTIONED THE FIGURES FOR THE
 STOCK OF NON-PERFORMING LOANS. IN ADDITION, SERIOUS
 RESERVATIONS WERE EXPRESSED ABOUT THE IMF'S APPROACH TO
 STATE-OWNED COMMERCIAL BANK REFORM; THE U.S. EXECUTIVE
 DIRECTOR WONDERED WHY THE PROGRAM DIDN'T FOCUS ON
 DISMANTLING STATE-OWNED COMMERCIAL BANKS, SO THAT THEY COULD
 BE REPLACED WITH PRIVATE COMMERCIAL BANKS, RATHER THAN
 REHABILITATION THROUGH IMF-FUNDED RESTRUCTURING. FINALLY,
 QUESTIONS WERE RAISED REGARDING MONITORING OF STATE-OWNED
 ENTERPRISES UNDER THE PROGRAM: IF STATE-OWNED COMMERCIAL
 LENDING TO STATE-OWNED ENTERPRISES WERE CUT OFF, HOW WOULD

PROGRAM MANAGERS ASSURE STATE-OWNED ENTERPRISES WEREN'T FINANCED `BACKDOOR' THROUGH THE GOVERNMENT'S BUDGET, A PARTICULARLY TROUBLING PROBLEM IN VIETNAM WHERE THE GOVERNMENT'S BUDGET PRESENTATION REMAINS OPAQUE.

13. (SBU) THESE ARE ALL EXCELLENT QUESTIONS AND, FRANKLY, IT IS DIFFICULT TO PROVIDE ADEQUATE REPLIES. WE COMMENT BELOW ON SOME OF THESE CONCERNS.

PUBLIC SECTOR DEBT - WE WERE SURPRISED WASHINGTON AGENCIES FOCUSED ON THE STOCK OF VIETNAM'S PUBLIC DEBT AT THE IMF BOARD MEETING WHICH CONSIDERED THE PRGF. THAT DEBT STANDS AT 63% OF GDP, A LARGE NUMBER BUT LESS THAN HALF OF WHERE MANY DEVELOPING COUNTRIES AND AT LEAST ONE DEVELOPED COUNTRY UNCLASSIFIED

PAGE 04 HANOI 01017 01 OF 04 271124Z (JAPAN) ARE TODAY. WE ALSO CONSIDER THE PROSPECTS FOR VIETNAM'S CONTINUED REAL GROWTH REMAIN FAVORABLE. A MAJOR REASON FOR THE GVN TO UNDERTAKE THE PRSC AND THE PRGF PROGRAMS IS TO ADDRESS THE STOCK OF STA